

[REDACTED] EO Technical Assistant
[REDACTED]
[REDACTED]

JUN 18 1966

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted discloses that your organization was incorporated on [REDACTED] under the [REDACTED] NonProfit Corporation Act. The organizations purposes and activities, as stated on the application Form 1024, are to construct and operate a co-operative recreational vehicle retreat for the benefit of members.

Membership is restricted to members in good standing of the "[REDACTED]". (The purpose and membership qualifications of the "[REDACTED]" are unknown.) In order for an "[REDACTED]" member to become a member of your organization, they must enter into a life-time lease agreement for the use of one of the lots in the park. Members are permitted to use the park and their leased lot at any time and for what ever length of time they wish. These lots may be used by members as a temporary or permanent residence, or left vacant. When a lease is executed, the member pays your organization an initial assessment of \$[REDACTED] for use of a specific lot. Thereafter the member agrees to pay any and all assessments necessary for the operation, maintenance, development and improvement of the park. Upon termination of membership, the leased lot reverts to your organization and the prior member is reimbursed for his original investment plus any subsequent assessments. Your organization's primary source of receipts will be derived from these lease payments and assessments. These funds will then be used to provide electricity, water, sewer, telephone and maintenance to the park.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7)-i of the regulations provides, in part, as follows:

- "(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."
- "(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

Revenue Ruling 68-168, 1968-1 C.B. 269 holds that a nonprofit organization that leases building lots to its members on a long-term basis is not exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954. In summary, it states that subsidiary and leasing lots in such a manner constitutes engaging in business.

When applying the law to the facts of your organization, your activities are not directed toward furthering pleasure, recreation or other nonprofit purposes, as described in section 501(c)(7). Therefore, your organization does not qualify for exemption from Federal income tax under section 501(c)(7). Accordingly, you are required to file income tax returns on Form 1120.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

[REDACTED]

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,

[REDACTED]
District Director

Enclosures:
Publication 892
Form 6018

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